



Report to members

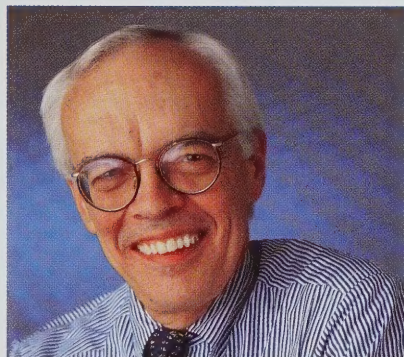


Teachers'
Pension Plan
Board

APRIL 2002



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CLAUDE LAMOUREUX

PRESIDENT AND CHIEF EXECUTIVE OFFICER

In last year's report we expressed our concern about high stock prices and the possibility of a market correction. In 2001, the equity markets, where 60% of the plan's assets are invested, followed this prediction. However, the drop was hardly unexpected given the strong equity markets that preceded it in the 1990s and the unjustifiably high stock prices that developed.

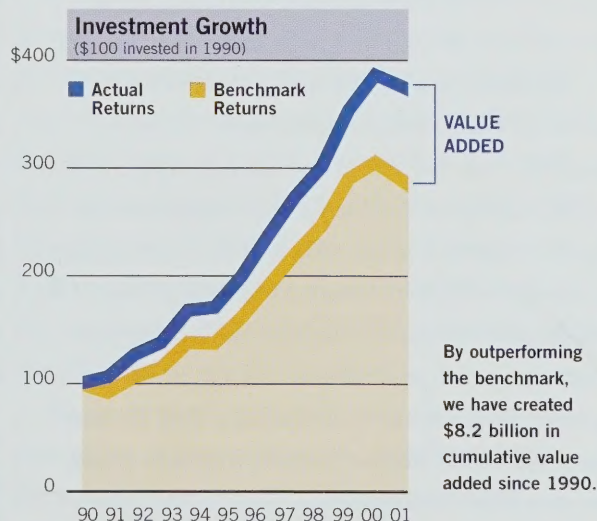
In Canada, the TSE 300 had a minus 12.6% return; in the U.S., the S&P 500 was minus 6.5%; and foreign markets were even worse at minus 16.5%. These are the markets we invest in, and at \$70 billion, we are too big to completely pull out of markets when we see a correction on the horizon. We did, however, minimize the impact by reducing our overall exposure to the stock markets as we had in 2000.

In that context, our rate of return this year was minus 2.3 – the first negative return in our 12-year history. We outperformed our market benchmark of minus 5.3% by 3% – this represents \$2.2 billion in value over market returns.

YOU MIGHT ASK, IS THIS ACCEPTABLE?

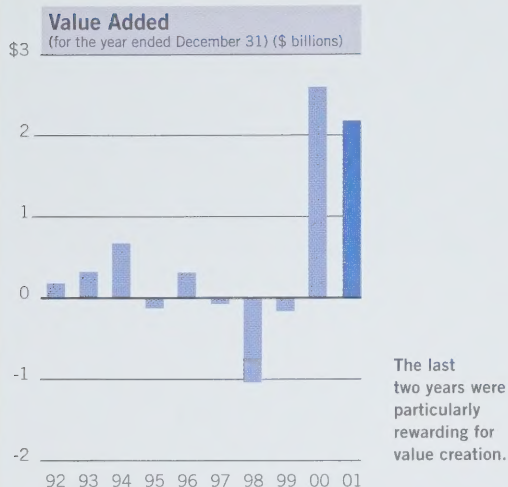
In the pension business, a loss or a gain in a single year is not a useful indicator of the quality of a plan's investment strategy. It's long-term performance that counts.

Long-term performance, such as the 11.7% rate of return we have earned since 1990, indicates that the assets are being carefully managed to ensure teachers receive the pensions they are promised. In other words, we are not chasing short-term results that would jeopardize the plan's ability to pay future pension benefits that must be paid out for each teacher over 35 or even 45 years. We have a long-term investment strategy in place in anticipation of a mix of both strong and weak markets. This strategy has served us well in the past.



Highlights

- 7,300 Teachers Started Pension (p.4)
- (2.3)% Rate of Return on Investments (p.5)
- 11.7% Average Rate of Return (p.5)
- Top 50 Investments (p.7)



But to us, it's not enough to simply measure success in 10-year increments. The performance over a single year, while of less relevance, is not incidental. The capital our managers preserved this year – \$2.2 billion over the composite benchmark – is enough to pay 66,000 pensions for one year. Preserving capital and maximizing value each and every year – and over the long term – are extremely difficult to achieve, which makes our performance in 2001 and since 1990 very satisfying.

Of course, in a perfect world, markets would never go down, indices would never see the relative value and size of one industry inflate out of all proportion and then just as rapidly lose air (as the high-tech sector did), and we would always outperform the benchmark. But this is neither a reasonable nor realistic expectation. As 2000 and 2001 illustrated, stock markets are not one-way streets, despite what the 1990s suggested. We must be prepared for adverse market conditions ahead, be they short- or long-term.

INVESTMENT HIGHLIGHTS

Looking inside our 2001 performance, you'll find we achieved good results in all areas, which helped to moderate the effect of equity market volatility. Some specific highlights:

- Actively managed equities generated \$1.2 billion

more than their benchmarks by continuing their value-oriented approach to stock selection.

- Real estate investments added \$423 million in value above their benchmark of 4% plus inflation because of the quality of these holdings, their geographic locations (21% in the U.S.) and the mix of retail and office properties.
- Merchant banking activities achieved \$489 million in value added during the year and outperformed the benchmark, yet again, this time by 13.7%. This was accomplished even though we had losses in several venture capital investments.

SURPLUS POSITION

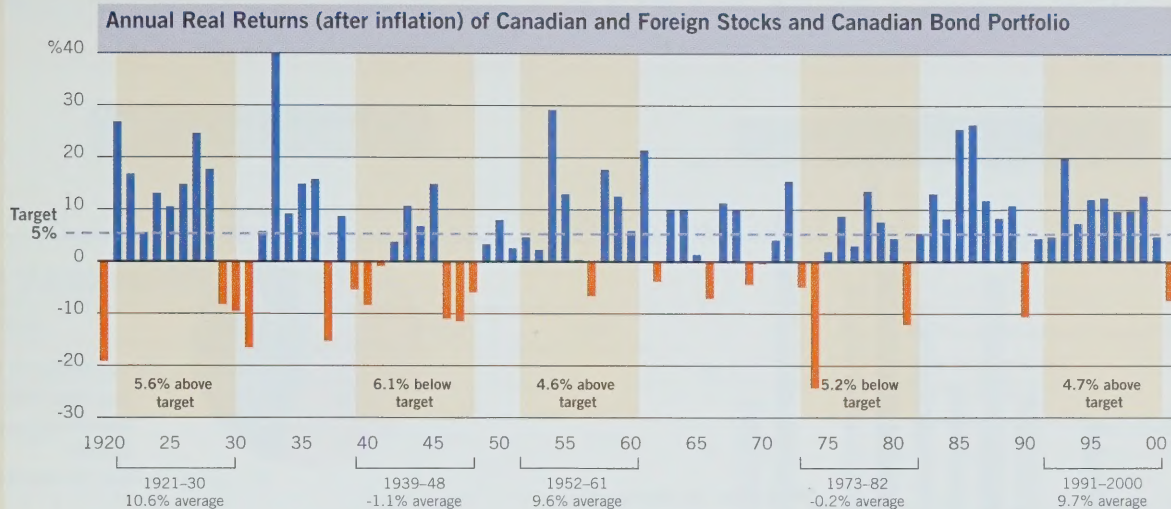
Before closing the books on 2001 performance, you should consider another indicator: the plan's surplus position of \$1.9 billion. It is this funding surplus that is used by the co-sponsors of the plan to determine benefit improvements or changes to the contribution rate.

A \$1.9-billion funding surplus is not a significant cushion, particularly given our assumptions about the future and the aging population of our plan members. To sustain improved benefit levels including the 85 factor for young and future teachers, without the need for contribution increases, we will need to generate a real rate of return of close to 5% over the long-term. That may be very difficult over the next decade and presents both a challenge to us and a cautionary note to plan members and the co-sponsors. See our Web site for more complete information.



THE EVOLUTION OF MEMBER SERVICES

Teachers' is more than a money management organization. We exist to provide timely, accurate services to all plan members and beneficiaries.



This graph shows how a hypothetical portfolio, based on a similar asset mix as our own, would have performed over the last 80 years. The portfolio includes two-thirds stocks (28% Canadian, 17% U.S., 22% foreign), and one-third Canadian bonds. One of the best decades in history was the 1990s. The plan will need to earn a minimum of 5% over the long term to fund benefits at current levels.

Over 7,300 teachers started receiving their pensions in 2001, the second highest retirement year in our history. Of these, 2,457 took advantage of the early retirement option of a reduced pension, some as early as age 50. Of great importance, we maintained our high Quality Service Index rating – a measure of how plan members rate our performance on a broad range of services. In 2002, Member Services will begin to introduce services over the Internet to allow us to better serve our members. These options will not replace personal service delivered over the phone or in person, but rather augment it and add a new level of convenience. Once this service is fully operational, plan members will be able to log on to our secure Web site and purchase credit for past service and, in future, obtain personal pension estimates.

THE FUTURE

It's prudent to recognize that financial markets are likely to provide us with lower returns in the years ahead. We can't predict short-term capital market movements, but we can encourage realistic expectations of future performance.

Indeed, I believe it is absolutely essential to understand that market corrections occur. 2001 is an example and perhaps, in context, not as bad as it could have been.

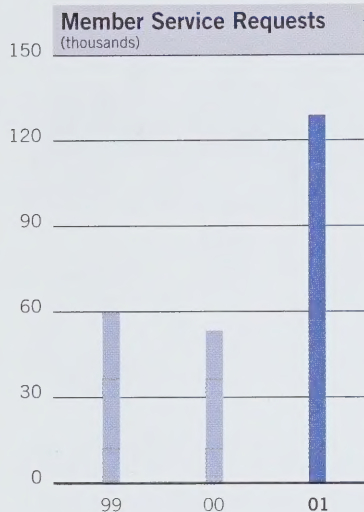
In closing, 2001 was an acid test for investment strategies and a difficult year for investors and for society as a whole. However, there were a few bright spots as there always are when markets decline. For Teachers', there are opportunities inherent in lower stock prices, just as shoppers find value when quality merchandise is marked down. In some ways, this is a slightly more favourable equity market to work in than the one we left behind, but price/earnings ratios are still high by historical standards.

We are prepared to do everything a good pension plan can do to protect members' benefits and serve the needs of today's and tomorrow's pensioners.

CLAUDE LAMOUREUX

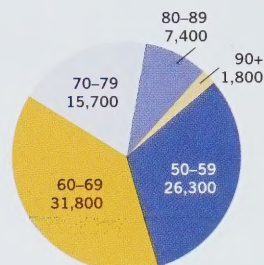
PRESIDENT AND CHIEF EXECUTIVE OFFICER

OUTSTANDING SERVICE TODAY...



We handled 129,000 member requests in 2001, 140% higher than in 2000, and reduced outstanding requests by 22% at year-end.

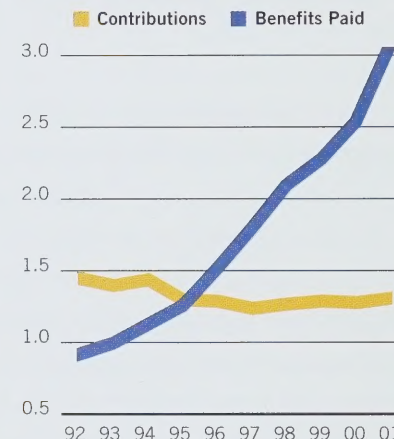
Pensioner Profile
(by age)



One third of all retired teachers are now under age 60.

Contributions vs. Benefits

(for the year ended December 31) (\$ billions)



Contributions have declined slightly over the past 10 years while benefit payments have almost quadrupled.

MEMBER SERVICES



(From left to right)

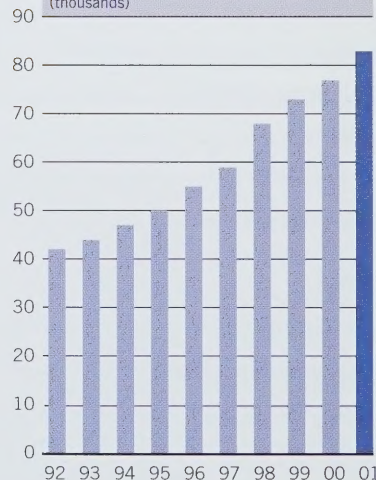
Allan Reesor Executive VP, Member Services and Chief Information Officer

Rosemarie McClean VP Client Services

Ron Di Nicola Pension Benefits Specialist

Our 57 pension benefits specialists answer teachers' calls assisted by our computer telephone integration system. It automatically recognizes a member's telephone number and immediately displays their records on the computer for faster service.

Number of Pensioners
(thousands)



The number of pensioners has doubled in the last 10 years.

RETIREMENT SECURITY TOMORROW

AS AT DECEMBER 31

2001

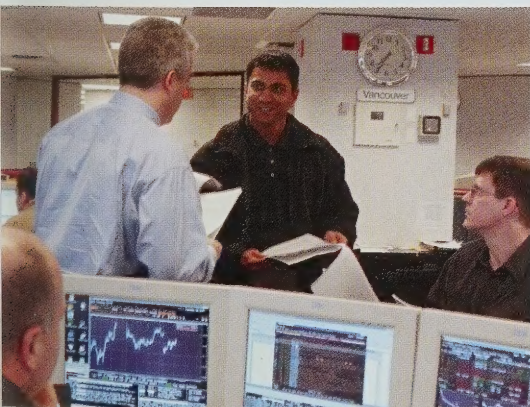
2000

Investment Performance

Net assets (\$ billions)				\$69.5	73.1
Rate of return on investments (%)					
Annual				-2.3%	9.3%
Composite benchmark				-5.3	5.3
Average annual compound rates of return (%)					
	1 yr	4 yr	5 yr	10 yr	SINCE 1990
Our return	-2.3	8.3	9.8	11.6	11.7
Benchmark	-5.3	7.0	8.7	10.5	9.3

Rates of Return Compared to Benchmarks

(percent)	Investment returns	Benchmark returns	Composite Benchmark
Fixed income and short-term securities	10.1	9.2	Scotia Capital Treasury Bills (91 days) Custom Canada Bond Universe Custom Net Ontario Debenture
Canadian equity	(6.8)	(12.6)	TSE 300
U.S. equity	(3.7)	(6.5)	S&P 500
Non-North American equity	(13.1)	(16.5)	Morgan Stanley EAFE, EM Custom NONA National Index
Inflation-sensitive investments	4.9	2.1	Scotia Capital Real Return Bond Custom U.S. Treasury Inflation-Protected Securities Goldman Sachs Commodities CPI plus 4%
Total Plan	(2.3)	(5.3)	Benchmark weighted by the policy asset mix

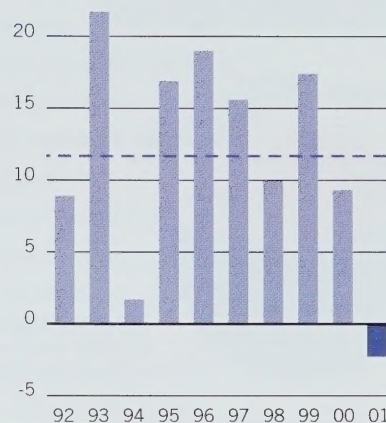


Our 96 highly qualified investment professionals manage 85% of investments in-house.

Rates of Return

(for the year ended December 31)

%25

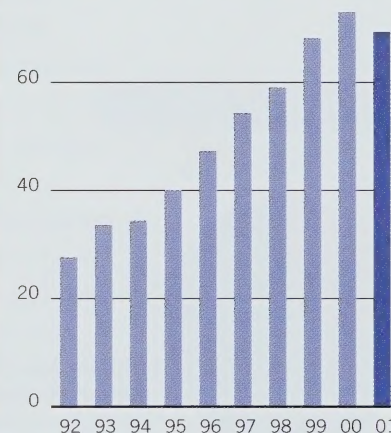


The average return since inception was 11.7% per year.

Net Assets

(as at December 31) (\$ billions)

\$80



The plan paid \$3.1 billion in pension benefits in 2001.

Income

(for the year ended December 31) (\$ billions)

\$14

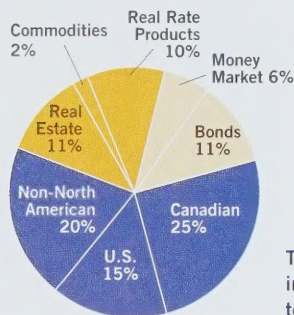


In future, we don't expect to be able to repeat the investment returns of the 1990s.

ENSURING TEACHERS' RETIREMENT INCOME FOR THE 21ST CENTURY

Asset Mix

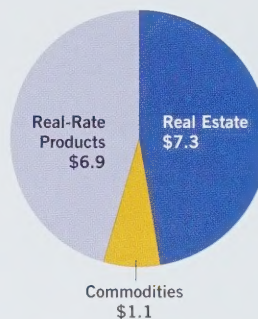
(as at December 31, 2001)



The plan's asset mix in 2001 was very close to the target asset mix.

Inflation-Sensitive Investments

(as at December 31, 2001) (\$ billions)



Inflation-sensitive investments account for 23% of the plan's assets for a total of \$15.3 billion.

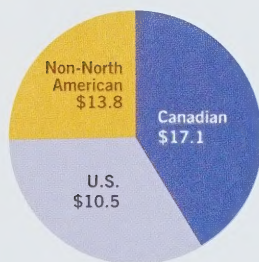
INFLATION-SENSITIVE INVESTMENTS 23%

FIXED INCOME 17%

EQUITIES 60%

Equities

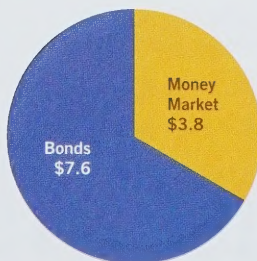
(as at December 31, 2001) (\$ billions)



Equities account for 60% of the plan's assets, for a total of \$41.4 billion.

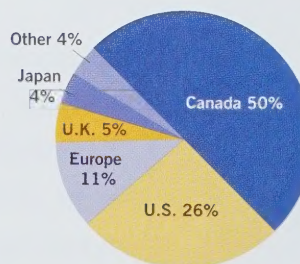
Fixed Income

(as at December 31, 2001) (\$ billions)



Fixed income accounts for 17% of the plan's assets, for a total of \$11.4 billion.

Geographic Exposure of Total Fund



Half of the fund is invested outside Canada.

To better match inflation-indexed pensions, we are building up ownership of inflation-sensitive investments.

AS AT DECEMBER 31, 2001

Subsidiary Companies (\$ Billions)

The Cadillac Fairview Corporation Ltd. \$7.3

Bonds and Real-Return Investments (\$ Billions)

Province of Ontario bonds \$15.1
 Government of Canada bonds 7.1
 Canadian corporate bonds 3.6
 Real-return Canada and corporate bonds and residual strip coupons 3.5
 Inflation-indexed notes (Canada and U.S.) 2.7
 Commercial paper 1.5
 International corporate bonds and notes 1.2
 Province of Quebec bonds 1.1
 Canadian T-bills and term deposits 0.7
 United States TIPS 0.4
 Index-linked mortgages 0.3

Corporate Shares (Millions)

	Shares	Fair Value
Nexen Inc.	20.1	\$ 625.7
Royal Bank of Canada	9.6	495.4
Nortel Networks Corporation	41.5	493.6
Maple Leaf Foods Inc.	42.7	449.5
Bank of Nova Scotia, The	8.7	423.9
Toronto-Dominion Bank, The	10.1	415.3
Shoppers Drug Mart Corporation	21.5	404.5
Capital International Emerging Countries Fund	8.5	357.9
AT&T Canada Inc.	6.8	325.7
Canadian Imperial Bank of Commerce	5.7	312.2
Alcan Aluminium Limited	5.3	305.4
Manulife Financial Corporation	7.3	304.3

Corporate Shares (continued) (Millions)

	Shares	Fair Value
Macdonald, Dettwiler and Associates Ltd.	10.1	\$ 279.6
BCE Inc.	7.3	262.0
Bank of Montreal	7.2	257.1
Power Corp. Convertible Debentures		243.9
Sun Life Financial Services of Canada Inc.	6.0	203.5
Canadian National Railway Company	2.6	202.5
WestJet Airlines Ltd.	8.3	197.1
PDFB Convertible Debentures		182.0
Magna International Inc.	1.8	177.0
Biovail Corporation	1.0	172.0
Barrick Gold Corporation	6.7	169.9
PanCanadian Energy Corporation	3.9	161.6
TransCanada PipeLines Limited	7.9	156.0
Suncor Energy Inc.	2.6	138.9
Clarica Life Insurance Co.	2.5	131.6
Petro-Canada	3.3	130.9
Total Fina SA	0.6	124.9
Talisman Energy Inc.	2.0	122.2
Thomson Corporation, The	2.5	122.0
Calpine Corporation	4.5	120.2
Celestica Inc.	1.8	113.9
Lloyds TSB Group PLC	6.4	110.7
Telefonica, S.A.	4.0	110.7
Telefonos de Mexico SA	9.7	109.9
Enbridge Inc.	2.5	108.0
Maple Leaf Sports and Entertainment		(undisclosed)

For a complete list of companies, please visit our Web site at www.otpp.com



(From left to right)

Grace Hession Manager Proxy Voting
Robert Bertram Executive VP Investments
Brian Gibson SR VP Active Equities

We actively vote our proxies and publish our voting intentions at least two weeks in advance on our Web site www.otpp.com. In 2001, we voted proxies in over 500 Canadian and foreign companies, frequently voting against proposals that would dilute shareholder value.

Board of Directors



(Left to right)

Ralph E. Lean, Q.C.

Senior partner with the law firm Cassels Brock & Blackwell in Toronto
MEMBER OF THE GOVERNANCE AND THE HUMAN RESOURCES AND COMPENSATION COMMITTEES

Jalynn H. Bennett

President of Jalynn H. Bennett & Associates Ltd., a consulting firm specializing in strategic planning and organizational development
CHAIR OF THE INVESTMENT COMMITTEE
AND MEMBER OF THE GOVERNANCE COMMITTEE

Guy Matte

Executive Director of L'Association des enseignantes et des enseignants franco-ontarien
MEMBER OF THE AUDIT AND ACTUARIAL COMMITTEE

Gary Porter

Chartered accountant and founding partner of the accounting firm Porter Héту International, and a past president of the Certified General Accountants Association of Ontario
MEMBER OF THE AUDIT AND ACTUARIAL, THE HUMAN RESOURCES AND COMPENSATION AND GOVERNANCE COMMITTEES

Lucy G. Greene

Former Vice-President of Human Resources with Sun Life Assurance Company of Canada
CHAIR OF THE GOVERNANCE COMMITTEE
AND MEMBER OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Geoffrey W. Clarkson

Fellow of the Institute of Chartered Accountants of Ontario and former senior partner with Ernst & Young
CHAIR OF THE BENEFITS ADJUDICATION COMMITTEE AND MEMBER OF THE AUDIT AND ACTUARIAL COMMITTEE

John S. Lane

Former Senior Vice-President of Investments for Sun Life Assurance Company of Canada, and a Chartered Financial Analyst
CHAIR OF THE AUDIT AND ACTUARIAL COMMITTEE
AND MEMBER OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Robert W. Korthals

Former President of the Toronto-Dominion Bank
CHAIR OF THE BOARD AND CHAIR OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Ann Finlayson

Journalist, speaker, freelance editor and consultant, author of three books, including *Whose Money Is It Anyway? The Showdown on Pensions* (1988)
VICE-CHAIR OF THE BENEFITS ADJUDICATION COMMITTEE AND MEMBER OF THE AUDIT AND ACTUARIAL COMMITTEE

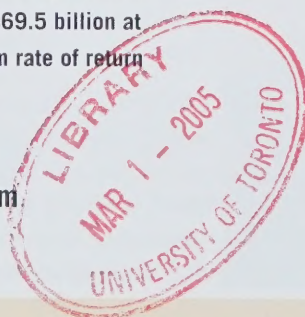
All Board members serve on the Investment Committee.

Corporate Profile

The Ontario Teachers' Pension Plan is responsible for the retirement income of 154,000 elementary and secondary school teachers, 83,000 retired teachers and their survivors, and over 92,000 former teachers with money in the plan. The plan is co-sponsored by the Ontario government and the Ontario Teachers' Federation who negotiate the use of surplus and any benefit improvements.

The plan had net assets of \$69.5 billion at the end of 2001 and a long-term rate of return of 11.7% per year since 1990.

Web site: www.otpp.com



To Contact Us

A copy of the *2001 Annual Report*, containing full audited financial statements, is on our Web site at www.otpp.com. We also have published a new *Report on Funding*. If you would like a copy of either of these reports, contact us.

We welcome your comments and suggestions for this *Report to Members*, as well as other aspects of our communications program.

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